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## BASTABLE'S PUBLIC FINANCE.<sup>1</sup>

ENGLISH literature has not been very fortunate hitherto in the systematic study of fiscal problems. The writers prior to Adam Smith concerned themselves only with scattered questions of temporary practical interest, and dealt with them in the same scrappy manner which characterized their treatment of economic problems in general. There was, in England at all events, no true science of political economy; there could not well be a science of finance. Adam Smith, taking his cue, perhaps, from the French writers, for the first time sought to connect fiscal questions with those of social economy. In his happy way he combined the abstract discussion of certain fundamental theories with the explanation and criticism of actual conditions, avoiding on the one hand the metaphysical vagaries of the Physiocrats and on the other the plodding monotony of the German "cameralistic" compilations. But while Adam Smith gave a decided impulse to the study of fiscal problems on the continent and thus initiated a movement which resulted in the elaboration of the modern science of finance, his success in England was far less marked, although his influence on English fiscal practice was great. The mighty genius of Ricardo turned at once to what seemed the core of the financial problem. He confined himself almost exclusively to an investigation into the incidence of the chief forms of taxes, regarding a tax simply as an addition to cost of production and treating all tax phenomena as mere illustrations of changes in value. Taxation became a minor part of general economic theory. So weighty was the influence of Ricardo that even John Stuart Mill, who in other parts of his *Political Economy* pursues a quite different policy, gives in his fifth book nothing but a succinct analysis of the shifting and general effect of taxation, scarcely

<sup>1</sup> Public Finance. By C. F. Bastable, LL.D., Professor of Political Economy in the University of Dublin. London, Macmillan & Co., 1892. 8vo, xx, 672 pp.

deigning to descend to the facts of everyday life or to do more than touch upon the many difficult details of principle. And although some writers did more than this, their discussions were forgotten amid the plaudits showered on Ricardo and Mill. Thus it happened that, while on the one hand we had numerous descriptive works on the chief facts of public finance, written for practical purposes, and on the other hand numerous appendices to general treatises on economics, dealing with a few abstract points in fiscal doctrine, there came to be an almost complete divorce between fact and theory. The practical writers did not concern themselves with theory, and the economists were for the most part content to work in what might be called a fiscal vacuum. McCulloch was the one important writer who made an exception, and he was not sufficiently successful to find either admirers or successors.

Another reason which may be adduced to explain the more rapid growth of the science of finance in France and Germany was their relatively inferior fiscal system. It is not the excellence but the defects of economic life that have always led to elaboration of economic theory. The shortcomings of mercantilism produced Adam Smith, the abuses of the *ancien régime* brought forth the Physiocrats, the dangers of levelling and the evils of the poor law gave us Malthus, the currency confusion and the corn laws were responsible for Ricardo. Had there been no agricultural, no industrial, no commercial troubles, we would not have had Mill and the whole host of modern specialists. So with the problems of public finance. The abuses on the continent were so serious that they gave rise to important political contests, and thus led the scientists to attempt a general clearing up. In England tax problems (with the exception of the free-trade controversy, which was far more than a mere matter of taxation) did not agitate the people to any considerable extent, and their solution was contentedly left to the practical common sense of the English statesmen. It is significant that in the one department of public finance which did seriously enter into politics, namely, that of public debts, the English writers have done better work than those of the continent. But

the comparative excellence of the English revenue and budgetary system, combined with the general prosperity, in themselves contributed to hinder the growth of fiscal theory.

Of late years the conditions have changed. The disproportionate increase in public expenditures and the immense development of local needs have materially increased the consciousness of fiscal pressure, while the growth of democracy on the one hand and the complications of recent industrial development on the other have brought to the front questions of theoretic justice which necessitate the revision of fundamental doctrines. In England as in America, fiscal problems have become no less important than in continental Europe. And it is thus natural to expect henceforth a deeper study of the subject-matter by those who in the wilderness of confusing party contests blaze out the path of truth and progress.

Professor Bastable's book is the first scientific result of this new interest in fiscal problems in England. His volume marks a distinct epoch in the history of English economics; for it is the first comprehensive attempt to set before English readers the science of finance in its modern garb. To many it will introduce an entirely new set of discussions; and especially to the English reader who is not familiar with foreign tongues, the volume will be a revelation. It is in the truest sense a pioneer work.

To all those acquainted with the *Theory of International Trade*, published a few years ago, as well as with his recent *Commerce of Nations*, Professor Bastable is known as a clear and careful thinker, without any intellectual vagaries, and with a sobriety of judgment that distinguishes him from many of his contemporaries. The same traits conspicuously reappear in the present volume, and they are reinforced by ample evidence of accurate scholarship and great familiarity with the foreign literature. In this latter respect, indeed, Professor Bastable's book may be said to be unique; for in none of the other recent English treatises, not excepting those of Sidgwick and Marshall, can there be said to be any evidence of really adequate knowledge of foreign science. It is indeed true that a change for

the better has recently set in in English periodical literature. But that does not in the least impair the claim of Professor Bastable's book to be considered the first real example in England of the comparative scientific method. In order to be sure of one's own conclusions, one must first know what others have said; and it is the sad neglect of this elementary rule that consigns so much of so-called scientific writing to the waste-basket.

It must not be supposed, however, that Professor Bastable is a slavish adherent of his German and French predecessors. Although he follows some of them, like Leroy-Beaulieu and Cohn, closely, the volume is by no means without independent suggestions. And it is precisely this independence of thought that invites comment and occasional criticism.

The work is divided into an Introduction and six books. The Introduction deals with the nature and scope of the science of finance and contains a sketch of its history; Book I treats of public expenditure; the three following books are devoted to public revenue (the economic receipts, the principles of taxation and the several kinds of taxes); Book V concerns itself with public debts; and Book VI deals with financial administration and control. Let us follow these in their order, picking out the few passages where criticism will not seem out of place.

In the first place it is to be regretted that Professor Bastable does not employ the term "science of finance." It is true that "finance" is used in English to include private as well as public finance, and that several books on "finance," like those of Jevons and Giffen, deal chiefly with monetary problems. But this uncleanness attaches to the word in foreign languages to almost the same degree. The French speak of "*la haute finance*," Claudio Jannet's new book is entitled *Le Capital, la Spéculation et la Finance*, and the number of titles on what might be called "private" or "monetary" finance is legion. But all this has not prevented the French from using the phrase *science de finance* or *science des finances*, as the technical term for public finance. The whole matter was discussed and laid to rest years ago by Joseph Garnier. In Italy and Germany the

matter of terminology has reached a similar settlement. It is therefore to be deprecated that Professor Bastable should not have preëmpted the phrase for English scientific use in the narrower sense. A protest should at all events be lodged against the use of the term "science of finance" to designate merely monetary science, as in Patterson's book. Sooner or later we shall conform to the usage of the French and Italians. Professor Bastable himself later on frequently uses the term finance to denote "public finance," and it is hard to see why he should then object to "science of finance."

The introductory chapter on the history of the science of finance could of course be nothing more than the merest sketch. But it gives a clear and good picture of the chief lines of development. Some mention might have been made of the discussions in mediæval Florence, which in many important points, as Ricca-Salerno has pointed out, foreshadow certain noteworthy modern doctrines. Moreover, if a fuller history of the science in England is ever written, attention will have to be paid to many writers to whom may be traced much of what is to-day current coin in fiscal discussions. To speak only of nineteenth century authors, Frend, Craig, Buchanan, Buckingham and Sayer will be able to hold their own with many of the German writers whom their compatriots delight to honor. But Professor Bastable, let us remember, was writing not a history, but a text-book.

An important point in which the volume differs from the work of Leroy-Beaulieu, to whom Professor Bastable acknowledges his special obligations, is the inclusion of the subject of public expenditures. It is a difficult and delicate task rightly to proportion the space to be devoted to this topic in a work on finance. From one point of view public expenditure is simply administration; from another point of view it is political economy in the original sense of the term. How far government should assume definite functions is really a problem of economic politics; in what manner government should actually carry on these functions is really a problem of administration. Yet almost every political or administrative act involves some outlay, and is in so

far a fit subject for discussion in systematic works on finance. Professor Bastable has dealt with this branch of his work in a remarkably satisfactory manner, avoiding on the one hand unsuitable details, and on the other mere commonplaces. Some will nevertheless be disposed to grumble at his devoting to public expenditure almost one-sixth of the whole volume.

It is to the next three books, on "Public Revenue," that students will chiefly turn; for it is in these that are to be found most of the controverted doctrines in modern finance, and it is naturally here that the critic will be apt to take issue with the author. Professor Bastable first takes up the classification of public revenues. He sees the inadequacy of the older continental division into taxes and lucrative prerogatives (*regalia*) and correctly relegates the latter class to the limbo of "*überwundener Standpunkte*." But he is equally aggressive in his onslaught on the class of "fees," the creation of which he ascribes to "a want of analytic power on the originator." He therefore reverts to Adam Smith's analysis and distinguishes between taxes and what Professor Bastable calls, curiously enough, in some places "semi-private economic income," and in other places "public economic income." The distinction, although not quite happily expressed, is easily grasped.

It will be questioned whether Professor Bastable is not here making a step backwards. He shows, it is true, the many inconsistencies in some recent writers on the subject of fees; and no one can deny the difficulty of rigorously distinguishing between fees and certain kinds of industrial income, or income from quasi-industrial undertakings. But does it not seem unwise to cut the knot in despair of untying it? For in refusing to acknowledge fees as a separate class, the author only creates fresh difficulties. Where, *e.g.*, shall we put school fees? They are surely not industrial income; and Professor Bastable himself would not class them among taxes. And where shall we put the charges for marriage certificates, and sheriff's fees, and copyright payments, and a host of other similar receipts? The author later on repeatedly speaks of "economic receipts" as different from fees, as well as from taxes, seeming to forget

that in the earlier portions of the volume he includes fees in the "economic" receipts. And why speak so frequently later on of the "fee principle" as opposed to the "tax principle," if fees do not form a separate class?

Again, Professor Bastable sharply separates economic from compulsory receipts. But he fails to distinguish between different kinds of compulsory receipts, and assumes that they are all taxes. But where, then, shall we put fines and penalties? They are certainly compulsory receipts, and just as certainly not taxes. And where shall we put the immense class of special assessments, of such commanding importance in the United States, but completely ignored by Professor Bastable? They again are compulsory receipts, and yet they must be sharply distinguished from taxes, as has indeed been done to some extent in our American jurisprudence. In fact it almost seems as if the author, in the endeavor to simplify matters, has really added to our difficulties. And while gladly acknowledging the justice of some of his criticisms on the German writers, we may venture to think that the last word on the subject has by no means yet been spoken.

A similar criticism may be urged against Professor Bastable's classification of taxes. He objects to all the recent methods, and reverts to what is virtually Adam Smith's classification into primary and secondary. But it is hard to see why a tax on the property of a living person should be primary, and on that of a deceased person, in the shape of an inheritance tax, secondary; or why a tax on the business of a corporation should be primary, and the tax on the receipts of a corporation should be secondary. It is questionable whether Professor Bastable will be able to impress his views in this respect on the science. It may also be noted that, when attention is called to the distinction between direct and indirect taxes made by practical "financiers," the statement in reality applies only to French practice, and not to that in England or America.

The book on the whole exhibits a remarkably independent judgment and a singularly fresh nomenclature. But in a few instances the author allows his German models to influence

him unduly. Thus he endeavors to introduce the German distinction between the "object" and the "subject" of taxation, meaning by the former the thing, and by the latter the person, on which the tax is imposed. Now this, I submit, is not English. When we speak of the subjects of taxation, we mean not the taxpayers (or "subjects," in Professor Bastable's language) but the phenomena subjected to taxation (or "objects," in Professor Bastable's language). And when we speak of the objects of taxation we commonly mean the aims of taxation and not the things taxed. In other words, Professor Bastable's (German) "tax object" is really the English "subject"; and his "tax subject" is the English "tax-payer" or "taxbearer," as the case may be. Again, I submit that the terms "forward incidence," "backward incidence," and "diffused incidence" are not English, and that they, moreover, confound the terms incidence and shifting. Finally, when Professor Bastable employs the word "rated tax" as opposed to "apportioned" tax, he is ignoring the equivalent term, "percentage tax," which has become quite common, in America at all events, and which clearly expresses the meaning on its very face.

But all these matters, it may be said, are of minor importance; and this I readily acknowledge. The crucial point is not so much the arrangement and terminology as the substance, and in the substance of the book Professor Bastable must meet with cordial appreciation. He modestly disclaims any pretension of having written an exhaustive treatise, and maintains that his volume is only introductory, or elementary. This is far from being the case, except in the sense that the clearness of style and arrangement renders the book eminently fitted for beginners as well as for more advanced students. He does not indeed load the work down with a useless array of statistics, but he discusses pretty much all the fundamental points of doctrine and discusses them well,—in some respects far better than has been done in much more pretentious foreign treatises.

Passing over the judicious and well-arranged chapters on the state domain, the industrial domain, and the state as capitalist, in which Professor Bastable always seeks to maintain the golden

mean between the *laissez-faire* theories of the earlier English writers and the radical doctrines of the semi-socialistic modern German authors, we come to the more difficult problems of taxation.

A good account is given of the benefits theory, which is discarded as the general basis of taxation. Much less satisfactory is the discussion of the faculty or ability theory. Professor Bastable speaks of its "convenient vagueness," but does not really make any serious effort to give a deeper analysis of the doctrine. He tells us of Mill's doctrine of "equal sacrifice," but again does not try to correlate this with the doctrine of ability. And therefore his whole discussion of the theory of progressive taxation is not quite up to the level of recent investigation. He contents himself with the old objections made by some of the French writers that progressive taxation is arbitrary and confiscatory, non-productive, creative of evasion and repressive of accumulation,—arguments which are partly misleading, and which, in so far as they are true, apply with one exception almost as well to proportional taxation. We find, indeed, some very good criticism of what may be called the "consumption" side of the faculty theory; but we find nothing at all about the "productive" side of faculty. While one may agree in great part with the practical conclusions, exception must be taken to the mode of argument. It may be said in passing that the author overlooks one of the most curious phases of the controversy, *i.e.* the doctrines of those arch-individualists who deduce the progressive idea from the insurance theory of taxation. On other points, too, Professor Bastable is very conservative,—more conservative, even, than his English predecessors. Thus he opposes the "differentiation" of the income tax, or the distinction between different kinds of income, which was demanded by Mill and accepted by Disraeli; he seems to be opposed to graduation in the inheritance tax, which was also demanded by Mill; and he even differs from the conservative French writers in disapproving of progression in the income tax as a counterpoise to regression in other taxes.

On the other hand, the discussion of the incidence of taxation

is remarkably good. The author shows in a general chapter the weakness both of the diffusion theory and of the absolute theories of Smith and Ricardo, and calls attention to the complicating conditions of modern society. While the solution here is chiefly a negative one, each of the chapters in the book on the several kinds of taxes contains a section devoted to a study of the incidence of the particular tax considered. It might perhaps be urged that the analysis is not rigorous enough in the case of the taxation of profits, that not enough attention is called to the distinction between monopolies and competitive undertakings, that the house tax is viewed only from the characteristically English point of view as being assessed on the occupier, and that the general capitalization theory is not brought into due prominence. But the treatment as a whole is vastly superior to that found in most of the manuals on public finance.

Perhaps the least satisfactory part of the work to American readers will be the discussion of universality of taxation, or double taxation. Double taxation is of two kinds, that by the same authority, and that by competing authorities, — the first class being subdivided according as the duplicate tax is levied on the same subject-matter or on the same taxable person. It may indeed be said that the last kind is of importance chiefly in federal states, like Germany, Switzerland and the United States. And that is no doubt the reason why a book written primarily for Englishmen pays so little attention to it. But even here international relations are of increasing importance, and deserve more than the half-page allotted to them by the author. Professor Bastable's conclusion itself is not beyond criticism. "The more modern solution," he says, "would be that the income tax should be levied by the country of residence, the land or property taxes by that of situation." But how, if the income is derived from land? or, conversely, if the property consists in intangible goods? But whatever we say about this, it is much to be regretted that the author absolutely passes over the other form of double taxation. He is kind enough to refer to some articles by the present writer; but those articles deal with only

a small section of the subject, as applied to corporations. The simultaneous taxation of property and income, or property and profits, together with the whole contention as to the treatment of debts, mortgages and interest on debts in connection with property, produce or income taxes,—all these topics belong to the discussion of duplicate taxation and need a far more thorough-going treatment than they have received. Even if there was no space for details, the main points of the controversy should at all events have been outlined. The absence of all such discussion from Professor Bastable's book will somewhat impair its value for American students.

Book IV, on the several kinds of taxes, shows the author at his best. A broad knowledge of the facts of taxation in all the important countries and a wide acquaintance with the special literature enable Professor Bastable to give a concise and clear account of actual conditions as well as of the chief movements for reform. He has of course no sympathy with the single-tax idea as a panacea, and he suggests a judicious combination of the three principal forms of taxation as best calculated to reach substantial justice. Of course, where so many details are given, it is impossible to avoid some slips. Thus the *centimes additionnels* to the French land tax (page 386) were not merely for local purposes; the New York tax (page 530) is not a direct inheritance tax, but rather a direct tax on successions and bequests of personality only; the Swiss taxes on property and income (page 420) do not "mark the connection between the sum of wealth and its annual return," since it is the avowed object of the income tax in almost all the cantons to avoid the taxation of the "annual return of wealth" already taxed; nor, again, can we find in the Swiss system of progressive taxation any "moderation of rates" (page 433), when we remember that some cantons tax the higher incomes almost ten per cent; the account of the Prussian tax on industry (page 410) does not give the "present" arrangement;<sup>1</sup> the account of the English trade licenses (page 407) is misleading, as all the local licenses, with the exception of half

<sup>1</sup> Perhaps the chapter was written before the recent changes of 1891, although the income-tax law of the same date is noticed farther on.

a dozen minor classes with a yield of about £150,000, are connected with articles of consumption, like liquor, tobacco and sweets, or with expenditures for luxury, like servants, dogs, carriages, game licenses, *etc.*, the purely industrial taxation being far less than would be inferred from the text; Decker did not propose a license tax on the consumption of commodities (page 310), but a single house tax (although the name he gave to it, "a general excise," misled many writers, including Adam Smith); the treatment of the income tax does not bring out clearly what income really consists in; and the statement that a land tax should not take indebtedness into account (page 391) seems to rest on too literal an acceptance of the very dubious distinction made by the German advocates of *Ertragssteuern*. Finally the treatment of indirect taxes is so concise as to leave no room for the discussion of important questions of policy, as for instance the different methods of taxing spirits or the choice between *ad valorem* and specific import duties.

In so far as the practical problems of American taxation are concerned, Professor Bastable shows his good judgment in opposing the suggestions for a direct income tax to replace our local tax on personal property. He also wisely deprecates the taxation of gross receipts of corporations as the ideal solution of the problem. The statement on page 424 that "the most promising sources of state revenue seem to be the real property and the license taxes," is obviously a slip, as it does not tally with the sentiments expressed in other parts of the book. And Americans will take exception to the assertion (page 327) that "taxation of inheritances is unsuited for a community where the family is the unit of society and property is really held by corporations, not by individuals." There is an obvious discrepancy between this and the author's statement (page 303) that "taxation of corporations is the taxation of their members." This last statement again is unclear. Do the "members" of a corporation mean its stockholders or its bondholders, or both? The discussions of these questions, which have led to some of the most perplexing problems of public finance in America as elsewhere, ought not to be so lightly "eliminated."

This review has already attained such length that it will be possible only to mention the books on public indebtedness and the budget. The space devoted to them, however, is so small (a little over ninety pages to public debts and about thirty pages to the budget) that very frequently there is room only for the merest suggestions. In the matter of the budget, especially, there is a vast amount of material in the United States, important for both facts and principles, which has never yet been worked up and the discussion of which would greatly enrich the subject. Professor Bastable's book on the budget is based chiefly on Stourm's well-known volume.

Finally, we must deplore the lack of an index, for which only partial compensation is found in the very full table of contents.

I have not hesitated to call attention to some of the minor defects in Professor Bastable's volume or to indicate a belief that it will not be found absolutely satisfactory for the American student or the American class-room. But we must remember that it was written primarily not for Americans but for Englishmen. And it is to be hoped that no one will leave these criticisms with the idea that the book can be lightly cast aside. On the contrary, it is not only by all odds the best book for English and American readers that has yet appeared on the subject, but it is destined in many respects to sound the keynote of future scientific discussion. It is so wholly admirable in arrangement, so accurate in statement, so catholic in temper, so sagacious in judgment and so broad in erudition, that it may well serve as a model not only for writers on public finance but for authors of economic text-books in general. The public, no less than Professor Bastable, is to be congratulated on the appearance of so masterly a production.

EDWIN R. A. SELIGMAN.